



ARIZONA STATE RETIREMENT SYSTEM

Financial Horizons

SPRING 2003

Letter from the Chairman of the ASRS Board



**Chairman
Alan Maguire**

It is with pleasure that I announce the appointment of Paul Matson as the new director of the Arizona State Retirement System. Paul is a talented, enthusiastic and energetic manager, who, I am confident, will take the system to new levels of professionalism and responsiveness.

Paul was chosen after an extensive search process. All members of the Board served on a special Director Selection Committee that oversaw the entire search and selection process. With the assistance of Maximus, Inc., a nationally-recognized executive search firm, and the Human Resources Division of the Arizona Department of Administration (ADOA), the Selection Committee undertook a nation-wide search for the best and most qualified candidates. More than 125 resumes from over 39 states were received by ADOA over several months. Both of our professional personnel teams independently reviewed the resumes received and, along with the Selection Committee, initially identified a large group of highly qualified candidates from inside

and outside of Arizona. Members of the Selection Committee then further reviewed the experience and qualifications of this large group of applicants and identified a smaller group truly worthy of further in-depth investigation. The experience, qualifications and vision of each of these individuals were explored in order to identify a group of finalists to be interviewed by the Selection Committee.

Paul Matson was the unanimous recommendation of all the participating members of the Selection Committee. Following routine background screening, the Board met on December 24, 2002 to accept the recommendation of the Selection Committee and appoint Paul as the new director.

Although many of you know Paul from his service as Chief Investment Officer for the ASRS, some of you may not be familiar with all his background. Paul received an MBA from Simon Fraser University in Burnaby, British Columbia following a Bachelor's Degree in Accountings from the University of Alberta. Before joining our System in 1995, he worked for the Alberta Workers Compensation Board as Senior Investment Advisor and for the Alberta Treasury as a Portfolio Analyst.

During his tenure at the ASRS, Paul has effectively and efficiently developed the Investment Management Division and has instituted best practices and techniques throughout the division. Along the way, and by no means as a

Letter continued on page 7

50 Years of Providing Retirement Security!

The Arizona State Retirement System celebrates its Golden Anniversary this year.

Throughout the year, we will highlight some of the history behind the agency's growth and development that has led to its current status as one of the most successful retirement plans in the nation.

Here's how it began:

In 1912, Arizona's first year of statehood, the first teacher retired with an Arizona State teacher's pension. From 1912 until 1943, Arizona teachers were granted pensions by the State Legislature if they had at least 30 years of service in Arizona schools and were 65 years of age or older. All teacher pensions were \$50 per month; there were no member deposits or survivor benefits.

The legislature created the Teachers' Retirement System in July 1943. All certified, full-time teachers were members, contributing to the retirement plan with a fixed-benefit formula.

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Members

Service Purchase Rulings and Changes

This past year has seen many changes in the ASRS Service Purchase policies. Many of the following had strong impacts on retirement plans of active members.

December 1, 2001 - Salary Verification

Prior to December 1, 2001, when the ASRS calculated the cost for a member to purchase years of service, a Salary Verification form completed by the member's employer was required. However, this method of salary verification resulted in a great deal of inconsistencies. **Effective December 1, 2001**, the ASRS adopted a new salary verification policy that would assure a higher degree of accuracy. The new process uses the cumulative salary of the past 12 months, beginning the day the member initiated the service purchase request, rather than the projected salary of the current fiscal year. Any service purchase requests made **since December 1, 2001**, have been calculated using the new salary verification method.

March 1, 2002 - Overlapping Years of Service (A.R.S. Section 38-739)

Prior to March 1, 2002, the ASRS had allowed members to purchase certain types of service, such as adjunct teaching, that actually overlapped service already earned. ASRS attorneys have determined that the ASRS statutes **do not allow** a member to earn more than one year of credited service in any one fiscal year. Those requests to purchase overlapping service that were made **prior to March 1, 2002**, have been granted. However, all requests to purchase overlapping service made **since March 1, 2002**, have, and will continue to be, denied.

July 25, 2002 - Non-Active Military Service (A.R.S. Section 38-745)

Prior to July 25, 2002, the ASRS had allowed members to purchase non-active military years of service. ASRS attorneys have determined that the ASRS statutes **do not allow** a member to purchase years of military service that were not active duty. Although non-active military service may appear to be viewed as Other Public Service (A.R.S. Section 38-743), the ASRS retirement plan treats military service as a totally separate entity with specific requirements unique to military service. Section 38-745 states that military service eligible for purchase must be active duty along with an honorable discharge and documented on member's DD-214. Those requests to purchase non-active military service that were made **prior to July 25, 2002**, have been granted. However, all requests to purchase non-active military service made **since July 25, 2002**, have, and will continue to be, denied.

Service Credit for Military Call-up (A.R.S. Section 38-745)

When an active member of the ASRS volunteers or is ordered into active military service as part of a presidential call-up, the member is entitled to receive ASRS credited service for the time served. The member is eligible to receive up to, but not exceeding, 48 months of credited service.

In order to be eligible, the member must be honorably separated from military service, and return to employment with the same employer within 90 days of discharge. In the case that military related hospitalization occurs, the member must return to the same employer within 90 days of release from care. Members who die during service are also eligible to receive the credited service.

Providing all requirements have been met, the employer is required to pay both employer and member contributions based on the member's salary being received prior to departing from active military service. If a member suffers a service-related death, the employer shall pay all contributions up to and including the date of the member's death.

Retired Members

Since July of 2001, the State Legislature has directed the ASRS to provide a "temporary subsidy" for health insurance premium costs for retirees living in rural areas of Arizona, where HMO plan coverage is not available either through ASRS or their former employer's health insurance plan. These subsidies have ranged between \$170 and \$685 per month. The temporary rural health insurance subsidies were enacted for two years and are set to expire on July 1, 2003, unless extended by the Legislature.

Legislation has been introduced to extend the subsidy, but in light of the state's budget crisis, its future is uncertain. The Legislature, along with the Governor's Office, is working to shore up a projected \$1.3 billion shortfall in next fiscal year's state budget.

"We realize that health insurance is a critically important benefit to retired members of the system and that high premiums may force retirees to forgo needed coverage," ASRS Board Chairman Alan Maguire said. "The Health Insurance Committee of the Board continues to work to find a long-term approach to providing adequate and affordable health insurance for our retired members. We recognize that there are no easy answers, but we believe there are some things we can do to improve the situation in the months ahead."

Although the subsidy is paid from ASRS funds, the cost of this temporary subsidy is absorbed through higher contribution rates for both employees and employers who pay into the system. Extending the subsidy for two years will result in increasing contribution rates by about 0.02 percent each for employers and employees for the next 18 years.

ASRS Calendar

The Member Services Division of the ASRS conducts educational meetings that are available to all members. Due to resource limitations, reservations are required and can easily be made by calling our offices at (602) 240-2000 in Phoenix, (520) 239-3100 in Tucson and 1 (800) 621-3778 outside Phoenix and Tucson.

Seminars (S) are designed for members who are between one and five years from retirement while **Group Meetings (GM)** are offered to members who are within one year of retirement.

Casa Grande - Casa Grande Elementary School District Board Room, 1460 N. Pinal Avenue, Casa Grande

Globe - Globe High School Auditorium, 401 High Street, Globe

Phoenix - 3300 N. Central Avenue, 10th Fl. Board Rm

Tucson - 7660 E. Broadway Boulevard, Suite 108

Page - Page Unified School District Board Room, 100 S. Navajo, Page

Winslow - Winslow Police Court Complex, City Council Chambers, 115 E. 2nd Street, Winslow

Holbrook - Holbrook Unified School District Board Room, 1000 N. 8th Avenue, Holbrook

St. Johns - St. Johns Unified School District Board Room, 450 S. 13th West, St. Johns

Payson - Payson Unified School District Board Room, 514 W. Wade Lane, Payson

Show Low - Show Low Junior High Campus, Class Room, 1730 E. McNeil, Show Low

Superior - Superior Junior/Senior High School Multi-purpose Room, 100 Mary Drive, Superior

April 2003

Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
		Casa Grande S 9 am GM 3 pm	Globe GM 9 am Superior S 2 pm		Phoenix Tucson GM 9 am	Phoenix S 9 am
6	7	8	Page GM 12 pm Page GM 3:15 pm Phoenix GM 3 pm Tucson GM 1 pm	10	Phoenix GM 9 am	12
13	Tucson S 1 pm	14Winslow GM 9 am & 4 pm	15Holbrook GM 9 am S 1 pm Phoenix GM 4 pm	16St. Johns GM 2 pm Tucson S 1 pm	17	18Tucson GM 9 am
20	21	22Tucson S 8 am	23Phoenix GM 3 pm Tucson GM 4 pm	24Phoenix S 9 am	25	26Phoenix GM 9 am
27	28	29Payson GM 9 am	30Phoenix GM 3 pm Show Low S 9 am GM 2 pm	<div>LEGEND</div> <div>Group Meeting = GM</div> <div>Seminar = S</div>		

Due to limited space, we are only showing the Seminars and Group Meetings for the month of April. However, if you go to our Web site at www.asrs.state.az.us and click on "Calendar" you can view the entire Spring schedule.

2001-02 Annual Financial Report

Below is a snapshot of the Arizona State Retirement System's membership as of June 30, 2002

TOTAL MEMBERSHIP: 373,643

NON-RETIRED MEMBERS

Total Number of Active Members	198,870
Number of State Employees	44,261
Number of Teachers	59,153
Number of Political Subdivision Employees	87,838
Average Age	43.0
Average Years of Service	8.2
Average Annual Salary	\$ 31,281
Total Number of Inactive Members	109,942

RETIRED & LTD MEMBERS (PLAN)

Total Number of Retired Plan Members	60,346
Average Age	65.0
Average Years of Service	18.2
Average Monthly Benefit	\$ 1,162
Total Number of Long-Term Disability Members	4,485

RETIRED MEMBER (SYSTEM)

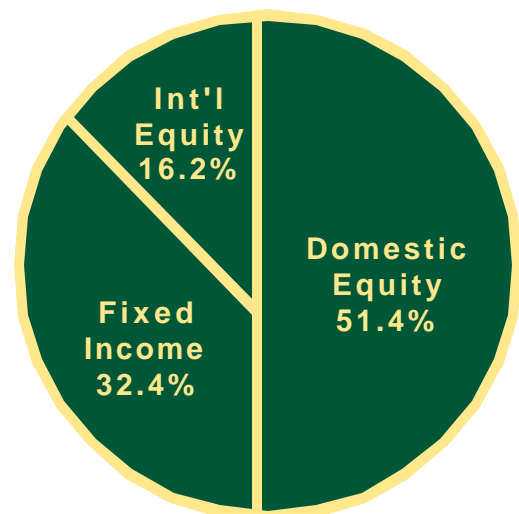
Total Number of Retired System Members	1,889
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Question:

How is my money invested at the ASRS?

Answer:

The pie chart below shows how the ASRS invested your money as of June 30, 2002. The way the funds are allocated plays a significant role in our financial success.



Schedule of Investments

The following shows the fair value of the ASRS ending June 30, 2002.

	Market Value
Corporate Equity Securities	\$13,106,625,676
<u>Fixed Income Securities</u>	
-Corporate Debt Securities	\$ 1,620,530,315
-U.S. Treasury & Government Agency Securities	\$ 3,992,595,176
-Real Estate & Mortgages	\$ 30,212,500
-Temporary Investments	\$ 631,216,017
-Net Payables on Transactions	\$ (193,505,814)
TOTAL PORTFOLIO	\$19,187,673,870

Brief Overview of Assets & Liabilities

ASSETS

Cash in Bank	\$ 13,011,948
Receivables	\$ 312,382,150
Investments	\$21,054,703,516
TOTAL ASSETS	\$21,380,097,614

LIABILITIES

Payables	\$ 2,170,288,222
TOTAL	\$19,209,809,392

Annual Report Summary

Financial Annual Report Summary Schedule of Cash Receipts & Cash Disbursements

CASH BALANCE, beginning of fiscal year \$74,586,646
CASH BALANCE, end of fiscal year \$13,011,948

Receipts

Member Contributions	\$167,728,882
Employer Contributions	\$167,728,883
Member Purchase of Service	\$49,365,487
Transfers from Other	
Retirement Systems	\$1,467,433
Short-term Securities Matured & Sold	\$5,537,414,425
Investments Matured & Sold	\$15,341,083,843
Real Estate Sold	\$182,273,996
Mortgage Principal Payments & Sales	\$6,017,850
Building Revenue	\$8,324,163
Securities Lending Program	\$43,767,682
Interest	\$319,925,871
Dividends	\$147,422,368
Miscellaneous	\$11,902,919

TOTAL RECEIPTS

\$21,984,423,802

Disbursements

Retirement, Disability & Subsidy Payments	\$1,054,965,770
Death Benefits	\$14,077,910
Refunds to Withdrawing Members	\$42,765,105
Transfers to Other	
Retirement Systems	\$8,616,818
Short-term Investments Purchased	\$6,030,899,498
Investments Purchased	\$14,813,473,395
Securities Program Lending	
Program Charges	\$36,335,573
Investment Manager Fees	\$17,407,241
Building Expenses	\$7,212,663
Administrative Expenses	\$18,504,866
Miscellaneous	\$1,739,661

TOTAL DISBURSEMENTS

\$22,045,998,500

Statement of Plan Net Assets & Fund Balance - Actuarial Valuation for Fiscal Year 2002

Actuarial Accrued Liabilities

Liabilities due to Members' Benefits

Retirement Benefits	\$ 9,634,818,900
Health Insurance Premium Supplement	\$ 846,152,200
Disability Benefits (Deferred Retirement)	\$ 172,300,500
Pre-Retirement Death Benefits	\$ 243,976,100
Withdrawal Benefits	\$ 347,788,600
TOTAL ACTIVE MEMBERS	\$ 11,245,036,300

Inactive Members

	\$ 744,520,062
Retired Members and Beneficiaries	\$ 8,969,341,077
Disabled Members (Deferred Retirement)	\$ 252,993,500
Benefit Increases for other-than-plan-participants	\$ 12,328,000
Total Present Value of Benefits	\$ 21,224,218,939

Reserve for "Excess Investment Earnings" Benefit Increase	\$ 1,362,701,812
Total Actuarial Accrued Liability	\$ 22,586,920,751

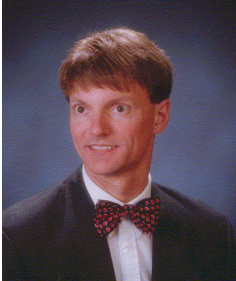
Actuarial Value of Assets	\$ 23,623,015,969
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Unfunded Actuarial Accrued Liability	\$ (1,036,095,218)
Amortization of Unfunded Actuarial Accrued Liability	\$ (104,840,085)
Normal Cost for the Year	\$ 831,499,553
Total Contribution for the Year	\$ 726,659,468
Total Covered Payroll (projected to 2002/2003 plan year)	\$ 6,989,339,000

**Required Employee & Employer
Contributions as a Percentage
of Pay for Fiscal Year 2004-2005:**

Employee Portion	5.20%
Employer Portion	5.20%
Total	10.40%

Message from the New Director



**Director
Paul Matson**

Greetings:

This year marks the 50th anniversary of the Arizona State Retirement System. And it marks my first year as your new director.

I am grateful for this opportunity to serve our members, and I appreciate the trust our Board placed in me when they made the appointment last month. I will endeavor to ensure the system remains among the best public plans in the nation.

Although we have seen rough economic times over the past two years, your retirement fund remains stable. We are, in fact, more than 100 percent funded, meaning we have more than enough in the fund currently to pay out projected retirement benefits.

Having served the past seven years at the ASRS as the chief investment officer, I can assure you that we have a very capable staff overseeing the Fund. Over the next several months we will be continuing to look at our operations and identifying areas for improvement. I am very proud to be leading the ASRS team, which I know is committed to providing you with the best service possible.

We are, in fact, in the process of making improvements in a number of areas, particularly related to technology. You will now see a new and improved Web site. We are also moving toward a more automated record system that will make it easier for our benefit advisors to call up your information and serve you when you call, and we are progressing toward a system that will allow members to view their account information online.

Our member services division has dozens of meeting opportunities scheduled this year to meet with active members and prospective retirees. (Please see the listing on page 3 of this newsletter.) And, as always, they stand ready to answer any questions you may have.

Our team assigned to employer relations also has a very active schedule for this year and will be again traveling the state to meet with employer members to answer any questions.

Our Board will continue with monthly meetings, which are open to the public, and we invite you to any of them. You can see an agenda for each meeting as well as minutes of the meetings on our Web site.

Lastly, I'd like to take this opportunity to recognize the work of LeRoy Gilbertson, the director of this agency for the past nine years. Under Mr. Gilbertson's leadership, the ASRS experienced tremendous growth and development: membership nearly doubled to 373,000 today; a number of improvements to your benefit programs were put in place; the Fund grew from \$11 billion to approximately \$18 billion, and improvements to our communications to members and employers, including development of an interactive Web site, were made.

As we celebrate our Golden Anniversary, I am proud to join with our entire staff in our commitment to providing the best of service to our members.

Paul Matson
Director

ASRS M

The mission of the Arizona State Retirement System is to contribute towards its members' long-
by counseling and dissem

Letter from the Chairman of the ASRS Board continued from the cover

mere coincidence, he has propelled the division to become one of the leaders in the nation, both in practice and performance, as recognized repeatedly in independent national analyses and surveys. Paul has worked very effectively with the members of the Board, especially the Board's Investment Review Committee and its predecessor, the Investment Advisory Council.

He has often been involved in issues and challenges facing the system outside the investment realm. His involvement reflects both his intellectual and managerial skills, and also his capacity to communicate effectively and accomplish the tasks before him.

Paul now has the opportunity to bring his energy, enthusiasm and leadership to the entire agency. I know that I speak for every member of the Board and all the members of the system when I say that we are pleased to have Paul as Director of the System and we look forward to a time, hopefully in the not too distant future, when the entire agency rises to the proficiency and recognition of the Investment Management Division.

Alan Maguire
Board Chairman

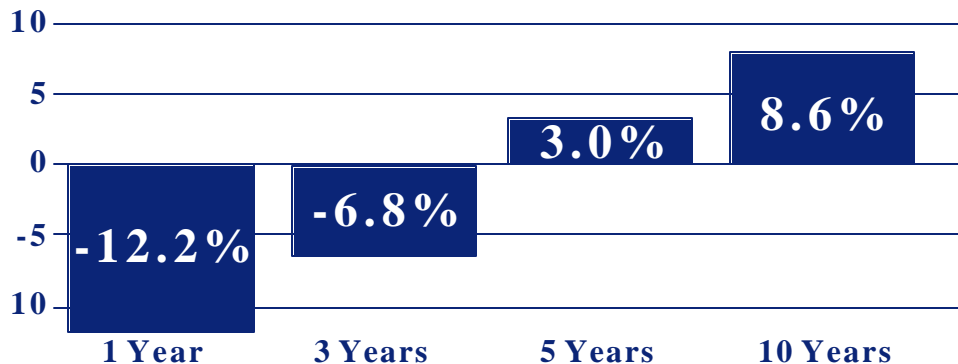
VERIFY YOUR INFORMATION

Your January statement is a good way to verify the information on your pension check.

Please check for the correct premium for the coverage(s) you elected during Open Enrollment or that you are continuing. If you believe your pension check is incorrect, you must notify ASRS Member Services within 30 days of your pension check change. Changes or additions requested beyond 30 days will only be allowed if there is a Qualifying Event.

ASRS Investment Rates of Return

This graph reflects the rates of return for the period ending December 31, 2002.



ASRS Board

Alan Maguire, Chairman, Phoenix
Member at large; term expires 2003

Bonnie Gonzalez, Vice-Chairman
Flagstaff
State employee; term expires 2003

Charlotte Borchert, Chandler
Retirees; term expires 2005

Jim Bruner, Scottsdale
Public; term expires 2005

Dr. Chuck Essigs, Mesa
Educator; term expires 2004

Norman Miller, Phoenix
Public; term expires 2004

Karl L. Polen, Phoenix
Public; term expires 2004

Ray Rottas, Paradise Valley
Public; term expires 2003

N. Carl Tenney,
Town of Chino Valley
Political Subdivisions;
term expires 2005

Executive Staff

Paul Matson, Director

Gary Dokes
Acting Chief Investment Officer

Anthony Guarino, Deputy Director,
Chief Operations Officer

Richard Stephenson
Deputy Director, External Affairs

Statement

financial security by providing retirement, disability, survivors' and health insurance benefits; and
information to its members.

COMMENTS?

The Arizona State Retirement System continues to appreciate your comments and suggestions. We encourage you to write to the ASRS Director, Paul Matson, with your concerns. Please include your name, telephone number and Social Security number on all correspondence. Thank you for your input.

Send letters to:
Paul Matson, Director
Arizona State Retirement System
P.O. Box 33910
Phoenix, AZ 85067-3910

ASRS *Financial Horizons* is published quarterly for retired and non-retired members of the Arizona State Retirement System. We welcome letters from our readers and encourage you to address your comments to:

Editor
Financial Horizons
P.O. Box 33910
Phoenix, AZ 85067-3910

The ASRS complies with the *Americans with Disabilities Act of 1990*. This newsletter is available in an alternate format upon request. Contact Maurah Harrison, ADA Coordinator, at (602) 240-5312. Information in the newsletter about retirement laws or policies is only a guide. If a conflict arises between information contained in the newsletter and the law, the law takes precedence.

CONTACT US!

ON THE WEB:
www.asrs.state.az.us

PHOENIX OFFICE:
3300 North Central Avenue
Post Office Box 33910
Phoenix, AZ 85067-3910
(602) 240-2000

TUCSON OFFICE:
7660 East Broadway Boulevard
Tucson, AZ 85710-3776
(520) 239-3100

**OUTSIDE METRO PHOENIX
AND TUCSON:**
Call Toll Free at (800) 621-3778

50 Years of Providing Retirement Security (continued from the cover)

In 1953, the Arizona State Retirement System was created to provide retirement and other benefits for state employees, including university faculty, and employees of the state's political subdivisions. The Teachers' Retirement System continued to pay retirement benefits to retired teacher members who were ineligible to join the ASRS.

In 1970, the legislature agreed to enact the current Arizona State Retirement System Fixed Benefit Plan if 70 percent or more of state employees and teachers voted to transfer to the new plan. More than 80 percent of eligible members voted for the new plan, which became effective July 1, 1971. Most political subdivisions subsequently voted to join.

Today, the ASRS encompasses the state, including the three state universities, all 10 community colleges, 14 of the 15 counties, and most cities and towns and school districts.

The ASRS has more than 373,000 members and is growing each year.

If you have a story you'd like to share about the state retirement system, especially if you're a long-time retiree, please feel free to contact us. You can write to:
davidc@asrs.state.az.us or call (602) 240-2016.